

# KENTUCKY ECONOMIC INDICATORS

October 2006 as of December 21, 2006

## **KY Composite Index of Leading Indicators decreased 0.8 percent in October.**

- The Leading Index decreased for the sixth time this year.
- The Leading Index decreased by 0.3 percent over the same month last year.
- Component indicators leaned negative, 2:3.
  - KY Labor Intensity Index decreased 0.3 percent.
  - + KY Index of Initial UI Claims increased by 2.9 percent.
  - US Retail Sales decreased by 0.8 percent.
  - US Manufacturer's New Orders Index decreased 27.5 percent.
  - + Louisville Help Wanted Index increased 1 point to 36.

*Component weights for October are 61.6, 17.3, 12.5, 6.6 and 2.0 respectively.*

## **KY Composite Index of Coincident Indicators increased 0.7 percent in October.**

- The Coincident Index is positive for the ninth time this year.
- Same-month-last-year growth is positive for the thirty-ninth consecutive month at 2.4 percent.
- Component indicators leaned positive, 2:1.
  - KY Nonagricultural Employment decreased 3.1 percent.
  - + US Industrial Production Index increased 0.2 percent.
  - + US Personal Income Less Transfers increased 9.3 percent.

*Component weights for October are 40.4, 25.1 and 21.1 respectively. Component weights do not sum to one because the two US components were discounted to give the Kentucky component more weight.*

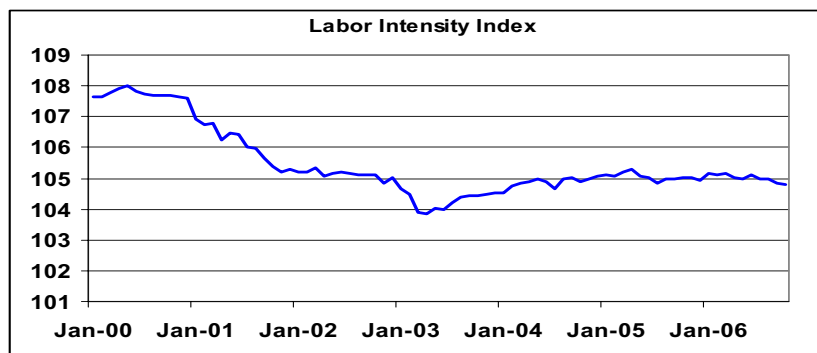
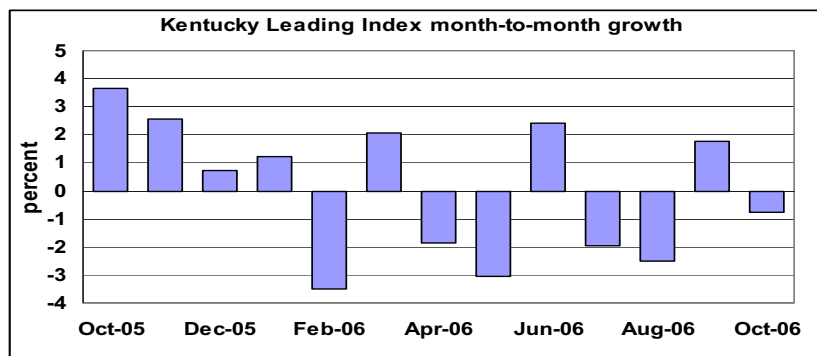
The Kentucky Leading Index declined for the sixth time this year. While the three month rule has not been triggered, there is a general trend among many indicators that a slowdown is occurring. The largest mover in October was the US Manufacturer's New Orders Index. It declined by 27.5 percent on a month to month basis. It fell 1.5 percent compared to October 2005. And even while it is weighted only 6.6 percent in the Kentucky Leading Index, it was still had the largest impact on October's Leading Index. The other four components had small changes overall but netted slightly positive.

The Kentucky Labor Intensity Index continues to struggle. It is down four-tenths of a point from its 12-month maximum. More importantly, it has essentially stalled during this recovery (see graph below). This Index declined sharply during the 2001 recession and lost over four points. The Labor Intensity Index, which carries the most weight in the Kentucky Leading Index, has only regained about a quarter of its recession losses since its trough in April 2003. For comparison purposes, the Kentucky Leading Index has recovered 59 percent of its recession losses by this month. From April 2003 to May 2004 there was a brief period of improvement for the Labor Intensity Index. Thereafter, the series has been essentially flat. It is unclear whether the manufacturing sector was hurt more than the non-manufacturing sectors by the 2001 recession. But it is clear that the manufacturing sector has recovered the least since the trough in early 2003. The Labor Intensity Index is composed of a special subset of manufacturing industries, chosen because they lead the trends in the economy. Nonetheless, firms downsizing, outsourcing and leaving the state have caused permanent harm to the Labor Intensity Index industries. It has been over two and a half years and there is no clear movement in these industries.

Kentucky employment took a blow in October. Two thousand seasonally-adjusted jobs (-8.9%) were lost in Manufacturing Employment and almost five thousand seasonally-adjusted jobs (-3.1%) were lost in Nonagricultural Employment. Excluding the last three unadjusted July seasonal declines, October 2006 was the worst single month for Kentucky Manufacturing Employment since September 2001, when it declined 9.5 percent. Kentucky Manufacturing Employment has lost a net 56,000 seasonally-adjusted jobs since its peak in May 2000.

Kentucky Nonagricultural Employment, on the other hand, has recovered reasonably well from the 2001 recession. It lost 55,100 seasonally-adjusted jobs, three percent of its total, during the 2001 recession. Since its trough in July 2003, it has regained 127 percent of its losses due to the recession. That is, it has surpassed its previous peak by 15,100 seasonally-adjusted jobs by October 2006.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



### About the Indicators

#### Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

#### Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **U.S. Manufacturer's New Orders Index:** This index has two components: US Manufacturer's New Orders for Nondefense Capital Goods and US Manufacturer's New Orders for Consumer Goods and Materials. Separately these two series slightly missed one or two turning points in the official reference series. But together they preceded each turning point.
- **Louisville Help-Wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.

#### Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, [www.osbd.ky.gov](http://www.osbd.ky.gov)

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**SELECTED KENTUCKY ECONOMIC INDICATORS  
SEASONALLY ADJUSTED**

	2005					2006							
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
KY Leading Index (1992=100)	109.1	109.3	109.4	109.5	109.2	109.4	109.2	108.9	109.1	108.9	108.7	108.9	108.8
% Chg Previous Month SAAR	3.7	2.6	0.7	1.2	-3.5	2.1	-1.9	-3.0	2.4	-2.0	-2.5	1.8	-0.8
% Chg Same Month Last Year	1.1	1.2	1.1	1.3	0.8	1.0	0.8	0.5	0.4	0.3	-0.2	0.1	-0.3
KY Leading Index Diffusion Index	60.0	63.3	60.0	66.7	60.0	63.3	56.7	53.3	56.7	50.0	56.7	53.3	56.7
KY Coincident Index (1992=100)	130.6	131.2	131.7	131.9	132.1	132.4	132.7	132.7	133.1	133.2	133.5	133.6	133.7
% Chg Previous Month SAAR	4.8	5.4	4.8	2.4	1.6	2.8	2.7	-0.5	4.5	0.2	2.9	1.1	0.7
% Chg Same Month Last Year	1.7	2.0	1.3	2.1	2.0	2.3	2.4	2.1	2.2	2.1	3.0	2.7	2.4
KY Nonag Employment (000s)	1,833.4	1,833.9	1,836.0	1,838.5	1,836.7	1,839.6	1,843.4	1,845.7	1,849.4	1,843.9	1,850.7	1,851.0	1,846.2
% Chg Previous Month SAAR	0.9	0.3	1.4	1.6	-1.2	1.9	2.5	1.5	2.4	-3.5	4.5	0.2	-3.1
% Chg Same Month Last Year	1.6	1.5	1.4	1.6	1.2	1.3	1.2	1.2	1.3	1.2	1.1	1.0	0.7
KY Mfg Employment (000s)	263.0	262.7	262.0	261.8	261.9	261.0	260.8	260.3	260.5	254.9	258.3	258.0	256.0
% Chg Previous Month SAAR	4.2	-1.4	-3.2	-0.9	0.5	-4.0	-0.9	-2.3	0.9	-23.0	17.2	-1.4	-8.9
% Chg Same Month Last Year	-0.3	-0.5	-0.5	-0.4	-0.3	-0.8	-1.0	-1.1	-1.0	-0.7	-1.4	-1.6	-2.7
KY Unemployment Rate (%)	6.4	6.4	6.5	6.3	6.3	6.0	6.1	5.6	5.8	6.3	5.8	5.3	5.2
KY Index of Initial UI Claims	102.7	103.5	104.0	105.3	104.1	104.2	104.1	103.0	103.9	103.5	102.3	102.8	103.0
% Chg Previous Month SAAR	28.5	9.7	5.6	16.1	-13.0	1.6	-0.9	-12.6	11.7	-4.8	-13.1	5.8	2.9
% Chg Same Month Last Year	-0.3	0.8	0.7	2.6	0.7	1.0	0.9	0.4	0.7	0.3	-0.8	2.2	0.3
KY Labor Intensity Index (1992=100)	105.0	105.0	104.9	105.2	105.1	105.2	105.0	105.0	105.1	105.0	105.0	104.8	104.8
% Chg Previous Month SAAR	0.6	-0.1	-1.2	2.6	-0.5	0.7	-1.8	-0.2	1.4	-1.6	0.1	-1.7	-0.3
% Chg Same Month Last Year	0.1	0.1	-0.1	0.1	0.0	0.0	-0.3	-0.1	0.1	0.1	0.0	-0.1	-0.2
Louisville HWI (1992=100)	54.0	52.0	52.0	44.0	42.0	40.0	39.0	35.0	37.0	34.0	32.0	35.0	36.0
% Chg Previous Month SAAR	-35.4	-36.4	0.0	-86.5	-42.8	-44.3	-26.2	-72.7	94.8	-63.7	-51.7	193.1	40.2
% Chg Same Month Last Year	31.7	23.8	26.8	4.8	2.4	0.0	2.6	-10.3	-9.8	-17.1	-30.4	-37.5	-33.3
GF Total Tax Receipts (\$ mill)	632.7	631.1	836.3	681.4	508.0	598.0	756.5	705.2	808.7	578.7	553.1	834.7	630.1
% Chg Same Month Last Year	12.3	7.4	17.8	3.3	1.4	5.2	-6.4	34.2	9.5	0.8	-0.4	7.2	-0.4
GF Sales & Use Receipts (\$ mill)	235.6	218.6	228.8	289.0	191.1	204.5	230.5	235.4	230.8	249.3	230.4	224.0	242.5
% Chg Same Month Last Year	5.2	8.7	5.1	6.5	8.4	2.2	2.8	8.9	5.1	4.6	6.0	-2.4	2.9
GF Income Tax Receipts (\$ mill)	259.3	234.0	254.3	220.9	199.1	171.4	340.2	213.1	259.5	228.6	227.4	281.8	248.4
% Chg Same Month Last Year	3.8	1.7	-1.8	-12.6	-14.0	-2.6	-17.8	-1.0	-2.6	-4.0	-9.3	1.4	-4.2

# SELECTED U.S. ECONOMIC INDICATORS SEASONALLY ADJUSTED

	2005					2006								
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	
US Leading Index (1996=100)	136.9	138.2	138.5	139.1	138.4	138.9	138.6	137.9	138.2	137.8	137.4	138.0	138.0	
	10.2	12.0	2.6	5.3	-5.9	4.4	-2.6	-5.9	2.6	-3.4	-3.4	5.4	0.0	
	1.9	2.2	1.8	2.4	1.5	2.6	2.3	1.7	0.8	0.7	0.3	1.6	0.8	
US Coincident Index (1996=100)	120.5	121.2	121.6	121.8	122.0	122.3	122.5	122.7	122.9	123.1	123.4	123.5	123.8	
	4.1	7.2	4.0	2.0	2.0	3.0	2.0	2.0	2.0	2.0	3.0	1.0	3.0	
	1.9	2.3	1.4	2.2	2.3	2.4	2.5	2.4	2.2	2.2	3.3	2.8	2.7	
US Nonag Employment (Mil.)	133.9	134.2	134.4	134.5	134.7	134.9	135.0	135.1	135.3	135.4	135.6	135.8	135.9	
	0.3	3.2	1.3	1.4	1.8	1.6	1.0	0.9	1.2	1.1	2.1	1.8	0.7	
	1.3	1.5	1.5	1.6	1.5	1.5	1.4	1.4	1.4	1.3	1.4	1.5	1.5	
US Unemployment Rate (%)	4.9	5.0	4.9	4.7	4.8	4.7	4.7	4.6	4.6	4.8	4.7	4.6	4.4	
US Manufacturer's New Orders Index (1996=100)	127.9	132.2	132.5	127.8	127.5	131.5	128.4	128.7	129.1	127.1	127.1	129.5	126.0	
	13.4	48.5	2.5	-35.2	-3.1	46.0	-25.3	2.5	3.9	-16.4	0.0	24.2	-27.5	
	5.5	6.0	5.8	2.7	2.5	7.1	3.6	-0.7	-0.3	1.4	-2.1	2.3	-1.5	
US Initial Claims for UI (000s)	338.9	315.6	310.4	286.3	306.0	308.9	314.8	333.5	308.8	312.4	315.7	313.9	311.4	
	-83.3	-57.5	-18.1	-62.1	122.2	12.0	25.5	99.9	-60.3	14.9	13.4	-6.6	-9.1	
	2.5	-4.0	-4.6	-14.2	-5.1	-9.8	-4.2	-0.6	-4.7	-2.3	-0.5	-20.2	-8.1	
US Industrial Production Index	107.1	108.2	109.1	109.1	109.4	110.0	110.9	110.9	111.9	112.3	112.5	112.1	112.1	
	14.7	14.1	10.5	-0.5	3.1	6.5	11.3	-0.8	11.2	4.9	2.3	-4.4	0.2	
	2.5	3.4	3.6	3.3	3.0	3.6	4.5	4.0	4.3	4.7	4.6	5.9	4.7	
US Personal Income Less Trans. (Bil. 2000 chained)	7,870.2	7,925.6	7,976.0	8,033.5	8,075.9	8,089.8	8,055.8	8,028.1	8,051.6	8,066.2	8,080.9	8,151.1	8,211.7	
	4.3	8.8	7.9	9.0	6.5	2.1	-4.9	-4.0	3.6	2.2	2.2	10.9	9.3	
	2.0	2.7	-0.7	3.2	3.8	4.2	3.7	3.1	2.8	2.3	7.1	3.9	4.3	
CPI, All Urban (1982-84=100)	199.1	197.8	197.7	199.0	199.1	199.8	201.0	201.9	202.3	203.2	203.7	202.7	201.7	
	3.1	-7.6	-0.6	8.2	0.6	4.3	7.5	5.5	2.4	5.5	3.0	-5.7	-5.8	
	4.4	3.5	3.4	4.0	3.6	3.4	3.6	4.1	4.3	4.2	3.8	2.1	1.3	
US Retail Sales (\$Billions)	348.1	349.5	351.1	361.7	358.7	361.2	363.6	364.3	362.4	367.4	367.5	365.3	365.1	
	5.9	4.8	5.7	43.2	-9.7	8.7	8.3	2.4	-6.1	17.8	0.2	-6.9	-0.8	
	6.4	6.7	5.8	9.4	7.4	8.0	7.0	7.6	5.3	4.8	6.3	5.5	4.9	
Manufacturing & Trade Sales (\$thous. 2000 chained)	920.5	929.0	935.7	947.0	942.9	947.7	944.4	951.9	946.3	948.9	953.7	949.0	*952.1	
	4.4	11.7	9.0	15.5	-5.0	6.3	-4.1	9.9	-6.9	3.4	6.2	-5.8	4.0	
	2.8	3.3	3.0	4.0	4.1	4.6	3.7	4.0	3.0	2.9	3.3	3.5	3.4	
US Consumer Expectations (1966=100)	63.2	69.6	80.2	78.9	74.5	76.0	73.4	68.2	72.0	72.5	68.0	78.2	84.8	
	-1.9	218.2	448.0	-17.8	-49.8	27.0	-34.1	-58.6	91.7	8.7	-53.6	435.0	164.4	
	-24.6	-18.3	-11.8	-7.9	-11.7	-8.2	-4.7	-9.4	-15.3	-15.2	-11.6	23.5	34.2	
Ave. Prime Interest Rate (%; NSA)	6.8	7.0	7.2	7.3	7.5	7.5	7.8	7.9	8.0	8.3	8.3	8.3	8.3	
* ARIMA estimate														

\* ARIMA estimate